

Public Agenda Item #15

Review, Discussion and Selection of the Third-Party Administrator for HealthSelectSM of Texas, including Consumer Directed HealthSelectSM

December 2, 2016

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Background



- HealthSelect of Texas is a self-funded, managed care, point-of-service health plan offered under the Texas Employees Group Benefits Program GBP.
- More than 440,000 participants as of August 2016.
- Annual plan cost in excess of \$3 billion including medical and prescription drugs.
- Current contract for administration of the medical portion of HealthSelect:
 - Effective: September 1, 2012
 - Terminates: August 31, 2017

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Request for Proposal (RFP)



- RFP issued June 23, 2016 for contract covering a six-year period from September 1, 2017 through August 31, 2023.
- Requested services include, but are not limited to:
 - Administrative services;
 - Claims processing;
 - Network management; and
 - Utilization management.
- Responses were due on or before August 11, 2016.

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ERS received two RFP responses



- Blue Cross and Blue Shield of Texas (BCBSTX)
 - Division of Health Care Service Corporation (HCSC), a Mutual Legal Reserve Company.
 - A mutual insurance company is owned by its policyholders.
 - HCSC operates as Blue Cross and Blue Shield of Illinois, Texas, New Mexico, Montana and Oklahoma.
- United HealthCare Services, Inc. (UHC)
 - Part of UnitedHealth Group, Incorporated.
 - Publicly-traded company.

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Preliminary Review Evaluation



Minimum Requirements:

- Principal place of business in the United States
- Professional licensure and certifications
- Demonstrated experience as third-party administrator
- Demonstrated satisfactory provider network
- Sufficient net worth and liquidity

✓ ERS' Office of Procurement and Contract Oversight determined both Proposals met minimum requirements.

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Proposal Review Evaluation



- The evaluation team was comprised of subject matter experts (SMEs) throughout ERS and Rudd and Wisdom, ERS' consulting actuaries.
- The Proposal Review Evaluation included:
 - Operational Capabilities and Services – Evaluation Weight 40%; and
 - Projected Total Cost (PTC), based on Financial Requirements and Specifications and Pricing – Evaluation Weight 60%.

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Proposal Review Evaluation continued



- Clarifications
 - SMEs identified areas of the Proposals that required further clarification.
 - The primary objective of the clarification process is to ensure mutual understanding of each vendor's Proposal.

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Finalists Evaluation



- BCBSTX and UHC were both selected as Finalists.
 - The Finalists Evaluation Phase included:
 - Site visits to both entities' data and call centers;
 - Face-to-Face Interviews;
 - Submission of Best and Final Offers (BAFOs);
 - Review of Past Performance;
 - Contractibility;
 - Other Legal Requirements and Regulatory Compliance; and
 - Further Clarifications.

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Evaluation and Analyses of Proposal Responses



- Detailed Analysis
 - Operational Capabilities and Services
 - PTC, based on Financial Requirements and Specifications and Pricing

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Operational Capabilities and Services



- Operational Requirements
- Provider Network Requirements, Contracting, and Management
- Programs and Optional Services
- Communication Requirements
- Information Systems Requirements

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Operational Capabilities and Services



- Both Respondents demonstrated full capability of providing:
 - ✓ Core programs and services.
 - ✓ Communication services.
 - ✓ Operational services.
 - ✓ Information system services.

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Provider Network Requirements, Contracting, and Management



- Provider Network Access.
- Utilization and Medical Services Management.

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Provider Network Access



	Network Providers		Percentage of HealthSelect Participants with Access as specified in the RFP (as of 11/1/2016)	
	BCBSTX	UHC	BCBSTX	UHC
Hospitals	453	438	94.0%	96.2%
Physicians	57,529	59,107	89.1%	93.3%
Access to Both Hospitals and Physicians			87.6%	92.3%

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Provider Network Access



- Primary Care Physicians (PCPs).
- Out-of-network
 - BCBSTX ParPlan.
 - UHC Shared Savings Program.
- Outside of Texas: Both TPAs have comparable and adequate out-of-state networks.

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Evaluation of Projected Total Cost



- PTC includes plan cost and member out-of-pocket cost.
- PTC evaluation considers:
 - Administrative Fee;
 - Provider Reimbursement; and
 - Health Care Management Incentive.

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Evaluation of Projected Total Cost– Basis of Projection



- PTC over the six-year contract period.
- Projection based on:
 - Plan enrollment for FY16;
 - HealthSelect claims incurred for the 12-month period ending 3/31/16;
 - Assumptions concerning the combined effect of price and utilization changes; and
 - Assumptions concerning potential balance billing.

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Evaluation of Projected Total Cost– Administrative Fee



- Administrative Fee Analysis is based on proposed six-year guaranteed monthly fee per member.
- BCBSTX proposed administrative fee is projected to cost about \$44 million less than UHC's over the six-year term of the Contract.

Projected Administrative Fees FY 2018 - 2023

	Current	BCBSTX	UHC
Total Administrative Fees	\$332.8M	\$281.2M	\$325.5M
Savings as Compared to Current	N/A	\$51.6M	\$7.3M

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Evaluation of Projected Total Cost– Provider Reimbursement



- Largest potential cost differential between the Proposals is the difference in provider reimbursement.
- Comparison of provider reimbursement
 - Claims re-pricing analysis.
 - Independent third party data provided by TPAs.

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Evaluation of Projected Total Cost: Provider Reimbursement

- Each Respondent was required to provide the allowable charge and network provider status as of June 1, 2016 for each HealthSelect claim included in the RFP.
- This data was used to develop projected provider reimbursement over the term of the contract.
- The analysis indicated that the aggregate allowable charges for BCBSTX are projected to be lower than that of UHC's in each year of the contract.

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Evaluation of Projected Total Cost: Provider Reimbursement

- The lower projected allowable charges for BCBSTX are attributable to the lower reimbursement rates for providers included in a customized network created for HealthSelect.
- While the difference in reimbursement rates between the TPAs is expected to impact each year of the contract, the projections for both TPAs become less certain in later years.

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Evaluation of Projected Total Cost– Provider Reimbursement



- BCBSTX proposed provider reimbursement for the newly created HealthSelect network is projected to cost about \$1.05 billion less than UHC's over the six-year term of the contract.

Projected Provider Reimbursement FY 2018 - 2023		
	BCBSTX	UHC
Total Provider Reimbursement	\$25,592.8M	\$26,642.5M

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Evaluation of Projected Total Cost: Health Care Management Incentive



- Purpose of Health Care Management Incentive (HCMI)
 - Provides incentive for efficient and cost-effective management of health care for in-area participants.
 - Provides for an assessment against the TPA in the event of adverse experience.

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Evaluation of Projected Total Cost: Health Care Management Incentive



- Structure of HCMI:
 - Applicable to in-area Participants.
 - Utilizes Target Claim Cost (TCC) determined based on:
 - Actual incurred claims;
 - Guarantee formula submitted in the Proposal;
 - Guaranteed maximum trend factors.
 - Risk-sharing threshold: 102% of TCC provided in the RFP.
 - Maximum amount at risk defined by TPA in its Proposal.

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Evaluation of Projected Total Cost: Health Care Management Incentive

- Statistical modeling indicates that the UHC HCMI Proposal has an expected value to the GBP that is \$7 million greater than BCBSTX's over the six-year term of the contract.

Projected Value of HCMI FY 2018 - 2023		
	BCBSTX	UHC
Projected Value of HCMI	\$26.2M	\$33.6M

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Evaluation of Projected Total Cost– Summary



Projected Total Cost FY 2018 - 2023		
	BCBSTX	UHC
Administrative Fees	\$281.2M	\$325.5M
Provider Reimbursement	\$25,592.8M	\$26,642.5M
HCMI	<\$26.2M>	<\$33.6M>
Total	\$25,847.8M	\$26,934.4M

The BCBSTX financial proposal is projected to cost about \$1.1 billion less than the UHC financial proposal based on the evaluation of the PTC.

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Finalists Evaluation



- Benefits Contracts leadership and Rudd and Wisdom met with ERS' Executive Office, attorneys from the Office of the General Counsel, and the Director of Procurement and Contract Oversight to review the scoring results and discuss the recommendation.
- Both Respondents possess the sophisticated administrative capabilities required to administer HealthSelect medical benefits and manage the HealthSelect provider network in accordance with the RFP requirements.
- Both Respondents maintain provider networks that are adequate to meet the needs of HealthSelect Participants.

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Staff Recommendation



- The Staff Recommendation is based on the following:
 - SMEs scoring of the Proposals;
 - Clarifications;
 - Face-to-Face Interviews;
 - Site Visits;
 - BAFOs;
 - Past Performance;
 - Contractibility; and
 - Other Legal Requirements and Regulatory Compliance.

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Staff Recommendation



Staff recommends that the Board of Trustees of the Employees Retirement System of Texas award the contract to _____ to act as the TPA for HealthSelect, including Consumer Directed HealthSelect, under the GBP pursuant to a contract which will cover a six year term beginning September 1, 2017 through August 31, 2023.

Questions?